October 30, 2023 (Revised)

Apar Industries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Cash credit	715.00	705.00	[ICRA]A+ (Stable); reaffirmed
Long term fund-based - Term loan	250.00	535.50	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Long term/Short term - Non-fund based - BG/LC	6,785.00	8,045.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed and assigned for enhanced amount
Total	**7,750.00**	**9,285.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the strong market position of Apar Industries Limited (AIL) in the power transmission conductor segment, being among the leading global manufacturers of aluminium and alloy conductors. The ratings are supported by AIL's cost competitiveness, improving mix of premium products and strong medium-term growth prospects for conductors as increased energy requirements necessitate deeper penetration of the transmission network and reconductoring work. The company also has an established presence in the speciality oil segment with a 60% market share in transformer oils in India; it is the third-largest transformer oil manufacturer in the world. Additionally, AIL has expanded its business in related segments like cables and is among the larger players catering to the domestic renewable segment. The company has developed a reasonable global footprint in recent years and its revenue mix is fairly diversified across geographies with international sales accounting for 48% of the consolidated revenues in FY2023. Further, as the fastest growing segment, cables will account for a substantial part of the revenue, going forward.

The ratings consider the favourable medium-term demand outlook with increased demand from the end-users such as the power, infrastructure, railways, defence and marine sectors. The order book of the conductor segment remained strong at Rs. 5,356 crore as on June 30, 2023. Further, an order inflow guidance, supported by favourable growth opportunities, provides healthy revenue growth visibility over the near term. The company has a reputed clientele, comprising large engineering, procurement and construction (EPC) players and major utilities like railways, defence and marine.

The ratings favourably factor in the company's stable profitability and coverage metrics which are expected to improve with the increased share of manufactured products such as conductors, cables and wires and the premium range therein. AIL's consolidated OPM improved to 8.9% in FY2023 compared with 6.2% in FY2022 with the rising share of premium products in the conductor segment. ICRA notes that the company has a hedging policy for metals as well as currency which limits the sharp variation in profitability.

The ratings are, however, constrained by the high working capital intensity with sizeable funding requirement met through interest-bearing acceptances. This was primarily on account of the elongated collection period and the high inventory levels maintained by the company for its diversified product portfolio. The ratings are further constrained by the revenues being exposed to the cyclicality in the domestic capex cycle and any economic slowdown, though the company's presence across various segments and growing exports provides some comfort.

The ratings further note the vulnerability of the company's profitability to the variation in the prices of raw materials, which include aluminium, copper and base oil, though AIL's hedging policy and natural hedge mitigates the risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that AIL's revenues and accruals will be supported by its comfortable order book, benefiting from its strong market position in conductors and the speciality oil segment, along with expectations of a healthy order inflow with focus on premium products in the near to medium term. Moreover, favourable demand prospects for transmission and distribution products in the domestic market and the increased order intake internationally where a sizeable capex will be towards the electrification infrastructure are expected to provide further growth opportunities to the company.

Key rating drivers and their description

Credit strengths

Diversified revenue mix with strong position in conductors; well-established market presence across other segments - The company's revenue mix is dominated by the conductor division (45-50%), followed by the speciality oil segment contributing 30-38% to the total revenue and the rest from the cable segment. The company enjoys a strong market position in power transmission conductors and speciality oil. AIL is among the leading global manufacturers of aluminium and alloy conductors, supported by cost competitiveness from the backward-integrated manufacturing operations. The share of premium products has been improving in the revenue mix as well as order book position over the last two years. The company has a 60% market share in transformer oils in India; it is the third-largest transformer oil manufacturer in the world. Over the years, the company has expanded in other segments like cables and is among the larger players in the domestic renewable segment. In conductors and cables, there are major growth opportunities from the overseas market. In speciality oil, new transmission lines and upgradation of existing transmission lines will drive revenues.

AIL has developed a reasonable global footprint in recent years and its revenue mix is diversified across geographies. Exports and overseas sales contributed to 48% of the company's total revenues in FY2023 on a consolidated basis. The company benefits from engineering capabilities as well as technical collaborations which has allowed it to enhance its product offerings over the years.

Reputed clientele comprising large EPC players and major utilities like railways, defence and marine – The company has established relations with large EPC players like Kalpataru Power Transmission Limited, Larsen and Toubro Limited, KEC International Limited among others, along with the supply of conductors and cables to all the transmission companies and major utilities like railways, defence and marine. The company is the largest supplier of copper conductors for the railway electrification programme. In speciality oil, the company is one of the largest transformer oil manufacturers in the country. It benefits from the strong demand for power transformers, while catering to other products like white oil for food and pharma grade, industrial oil and lubricants. ICRA expects healthy demand from the power and infrastructure sectors that will support strong growth prospects for AIL's products.

Stable profitability and coverage metrics; hedging policy limits sharp variation in profitability – AIL reported a healthy revenue growth of 54% in FY2023 at Rs. 14,357 crore and the strong growth momentum is expected to continue in FY2024. The revenue growth has been fuelled by a sharp rise in realisation on the back of increased raw material prices, besides healthy volume growth. The company has been recording stable profitability and coverage metrics even as it witnessed a strong growth in scale in the last few years. The consolidated operating margin improved to 8.9% in FY2023 from 6.2% in FY2022 with an improved mix of premium product along with the benefit arising from economies of scale. ICRA expects the operating margin to remain stable in the range of 8-9% for FY2024.

ICRA notes that the company has a hedging policy which limits the moderation in profitability, though with a lag. With an interest coverage of 3.7 times and TD/OPBDITA of 0.3 times as on March 31, 2023, the company exhibited stable coverage indicators even as it continued to rely sizeably on interest-bearing acceptances to fund its working capital requirements. AIL is expected to generate stable cash flows in the coming years with a scale-up across all its segments in the domestic and overseas markets. Although the company is undertaking debt-funded capex, the healthy revenue growth expected and the steady profitability metrics are likely to keep the company's gearing level below 0.5 times along with a gradual strengthening of the coverage metrics.

Favourable demand prospects driven by sizeable investments in end-user industries – The company has favourable demand prospects, driven by the sizeable investments in the power industry through increased budgetary allocation under the reform-linked distribution scheme and strengthening of power systems with a growing renewable capacity. The Government's increased capital expenditure is likely to fuel electricity demand growth, thereby supporting companies like AIL. The orderbook for conductors stood at Rs. 5,356 crore as of June 2023. The company caters to the demand of end-user industries such as power, infrastructure, railways, defence and marine. The demand prospects for the company's products are expected to increase with the Government's rising budgetary allocation towards these sectors. Export prospects continue to be strong with healthy demand expected from the US, Australia and Europe.

Credit challenges

High working capital intensity with sizeable funding requirement met through interest-bearing acceptances - The actual inventory and receivables have remained at around 100 days each in the last three years and the same is funded through increased reliance on LC-backed acceptances as the company imports majority of the raw material. The NWC/OI stood at 7.0% as on March 31, 2023, though the debtor and inventory days remained high because the major working capital requirements are being supported by LC-backed acceptances in the form of supplier credit.

Revenues vulnerable to cyclicality in end-user industries - AIL's revenues are exposed to the cyclicality in the domestic capex cycle and any economic slowdown could impact its revenues, as witnessed in the past. However, presence across multiple segments as well as the international market mitigates the risk to an extent.

Vulnerability of profits to raw material price and forex fluctuations - The company's margins are susceptible to the fluctuation in raw material prices as there is a lag of two to three months in passing on the price increase to the customers. Its major raw materials include aluminum, copper, base oil, which are mainly imported and the prices of which have increased substantially over the past few months, though they have moderated slightly recently. Nonetheless, AIL's ability to pass through the increase in raw material prices in new orders and entering into back-to-back hedging for its aluminium and copper products once an order is received mitigates the risk to an extent.

The company hedges metals at the London Metal Exchange (LME). For base oil also, the company has a hedging policy in place. However, the company is exposed to price fluctuation for the inventory held by it, evident in the variable profits on a QoQ basis. Moreover, the management strategy to focus on adding premium products and increase the order intake in this segment would allow high value addition and to some extent limit the vulnerability to raw material price changes.

Further, the company remains exposed to the volatility in foreign currency fluctuations. The natural hedge through growing exports and invoicing in US dollar and euro in the overseas markets mitigates the forex risk to an extent. Nevertheless, some forex risk will continue to persist. Further, ICRA notes the rising competition faced by the company from domestic and foreign players, limiting its pricing flexibility to an extent.

Liquidity position: Adequate

AIL's liquidity position remains adequate with a comfortable cash flow from operations of Rs. 605.7 crore in FY2023, and free cash and liquid investments of Rs. 558.3 crore as on March 31, 2023. Further, the free cash and liquid investments stood at Rs. 350.7 crore as on June 30, 2023. The fund-based working capital utilisation has remained low at around 5% for the past 12 months, providing adequate cushion. Further, the company has capex plans for FY2023 and FY2024 which will be funded through internal accruals and term loans, even as the liquidity is expected to remain comfortable. The repayments are expected to remain at Rs. 56.2 crore in FY2024 and Rs. 68.3 crore in FY2025, which can be comfortably met through cash accruals.

Rating sensitivities

Positive factors – ICRA could upgrade AIL's ratings if it demonstrates a significant growth in its scale of operations and profitability. An improvement in TOL/TNW and coverage metrics would be the monitorable for a favourable rating action.

Negative factors – Pressure on the ratings could arise if the company witnesses a sharp deterioration in its revenues and profitability or if its coverage metrics weaken. Further, any deterioration in the working capital cycle that weakens the liquidity position or coverage metrics may trigger a downward rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of AIL and its wholly-owned subsidiaries, Petroleum Specialities Pte. Limited (PSPL), Petroleum Specialities FZE (wholly owned subsidiary of PSPL), Apar Transmission & Distribution Projects Private Limited, Apar Distribution & Logistics Private Limited, Cema Wires & Cables Inc. as well as associate companies Ampoil Apar Lubricants Private Limited and CleanMax Rudra Private Limited

About the company

Apar Industries Limited (AIL) is a listed company which was founded in 1958 (originally know as Power Cables Pvt. Ltd.) to manufacture power transmission conductors. At present, it is one of the largest global manufacturers of aluminium and alloy conductors. In 1969, the company started the speciality oil division and is currently the third-largest global manufacturers of transformer oil. In 1999, the company started the cables division and is now the largest domestic player in renewables. The lubricants division was started in 2010. The company is supplying to 140+ countries globally. The company has a manufacturing capacity of 1,80,000 MTPA for conductors and 5,40,000 KL capacity for speciality oils, including lubricants. Its manufacturing facilities are at Rabale (Maharashtra) for oil and lubricants, Silvassa for conductors and oils, Athola and Rakholi (Dadra and Nagar Haveli) for conductors, Umbergaon and Khatalwad (Gujarat) for wires, cables and polymers, Jharsugoda and Lapanga (Orissa) for conductors and Hamriyah (Sharjah) for speciality oils.

Key financial indicators (audited)

AIL Consolidated	FY2022	FY2023	Q1FY24
Operating income	9,316.6	14,357.3	3,773.0
PAT	256.6	637.7	197.5
OPBDIT/OI	6.2%	8.9%	9.2%
PAT/OI	2.8%	4.4%	5.2%
Total outside liabilities/Tangible net worth (times)	2.9	2.7	-
Total debt/OPBDIT (times)	0.6	0.3	-
Interest coverage (times)	3.4	3.7	5.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 30, 2023	Mar 22, 2023	-	-
1	**Cash credit**	Long term	705.00	-	**[ICRA]A+(Stable)**	[ICRA]A+(Stable)	-	-
2	**Term loan**	Long term	535.50	209.9	**[ICRA]A+(Stable)**	[ICRA]A+(Stable)	-	-
3	**Non-fund based - BG/LC**	Long term and short term	8,045.00	-	**[ICRA]A+(Stable) /[ICRA]A1**	[ICRA]A+(Stable) /[ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based - Cash credit	Simple
Long term fund-based - Term loan	Simple
Long term/Short term - Non-fund based - BG/LC	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	705.00	**[ICRA]A+(Stable)**
NA	**Term loan-1**	FY2020	NA	FY2024	24.00	**[ICRA]A+(Stable)**
NA	**Term loan- ECB***	FY2022	NA	FY2027	181.50	**[ICRA]A+(Stable)**
NA	**Term loan- ECB***	FY2024	NA	FY2030	330.00	**[ICRA]A+(Stable)**
NA	**Non-fund based bank facilities**	NA	NA	NA	8,045.00	**[ICRA]A+(Stable) /[ICRA]A1**

*Source: Company; *External Commercial Borrowings*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	AIL Ownership	Consolidation Approach
Petroleum Specialities Pte. Limited (PSPL)	100%	Full Consolidation
Petroleum Specialities FZE	100%	Full Consolidation
Apar Transmission & Distribution Projects Private Limited	100%	Full Consolidation
Apar Distribution & Logistics Private Limited	100%	Full Consolidation
Ampoil Apar Lubricants Private Limited	40%	Equity Method
Clean Max Rudra Private Limited	26%	Equity Method

Source: Company

Corrigendum

Document dated October 30, 2023 has been corrected with revision as detailed below:

- In analytical approach section on Page No. 4
- For consolidated approach, the paragraph on "For arriving at the ratings, ICRA has considered consolidated financials of AIL and its wholly-owned subsidiaries" has been suitably modified

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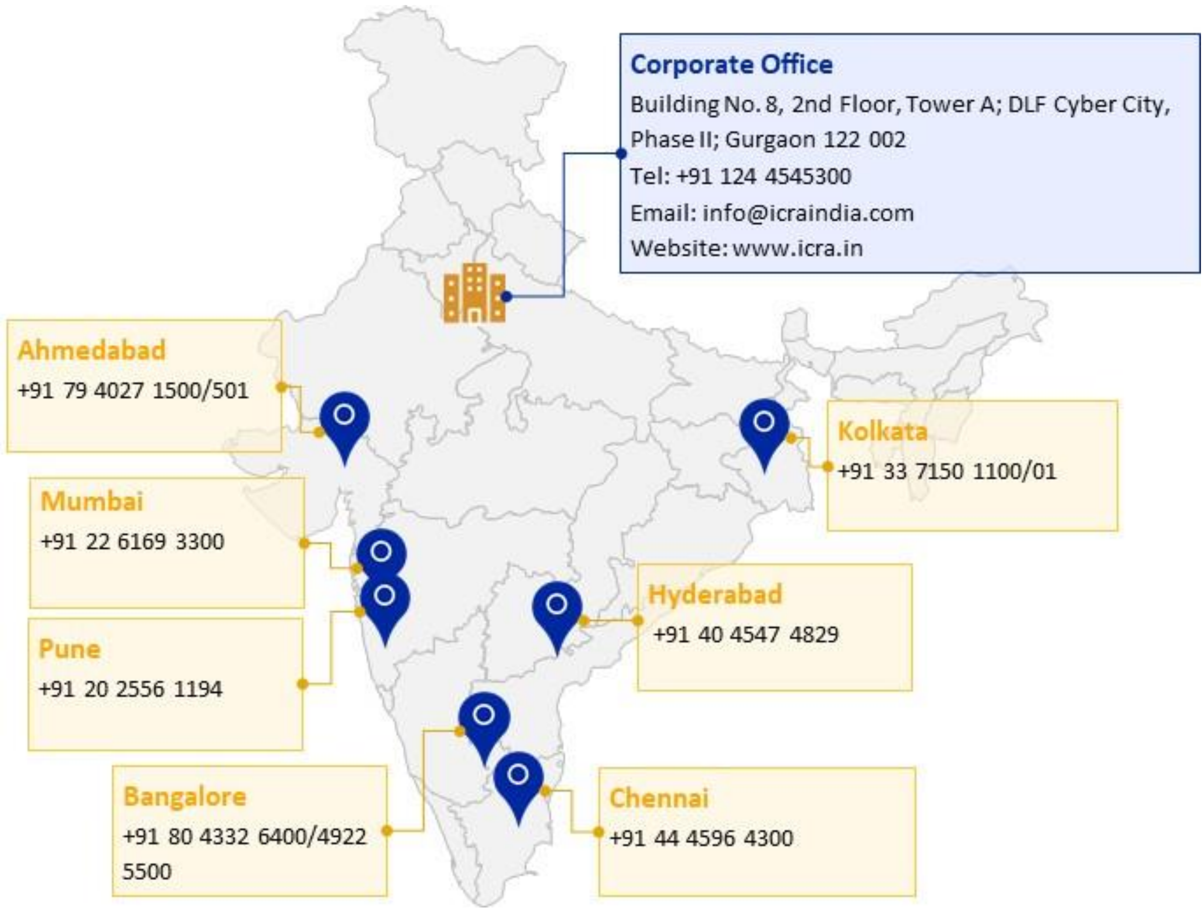

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